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The Public Debt of Venezuela: Causes and Effects, 1830-1870

1. Introduction

After the prolonged Wars of Independence, Venezuela formed part of the Republic of Colombia. Aside from the political difficulties implicit in the union with Colombia and Ecuador, economic motives played an important role in the dissolution of the Republic.[1] Venezuela became a sovereign nation in 1830, but its economic progress was marred by a financial problem which would not be resolved for a hundred years: the national debt. The object of this essay is to demonstrate how and why that debt grew to unmanageable proportions.

Throughout the years 1830 to 1870 the practice of political exclusivity, whereby the governing group tightly defined itself and excluded a significant number of persons of like degree from participation, made the government vulnerable to armed rebellion. As the nation became increasingly indebted, thanks to war-related expenditures the short-term mechanisms for financing that indebtedness had the effect of increasing it and opening the door to financial speculation or *agiotismo*. The political legitimacy of the respective governments declined even more as a result. A civil war began in 1859 and lasted for near-

1 An excellent study of the fiscal and economic situation in the Republic of Colombia can be found in Bushnell (1985: chaps. 6-10). A contemporary account of the problems in Venezuela at the time can be found in the subsequently published correspondence of the then Treasury Minister, José Rafael Revenga (1953).

ly five years; peace was never completely restored during the rest of the period. In this context, purely economic or financial calculations as to the probability of punctually meeting public debt obligations lacked a vital component: the degree of political legitimacy of the government. Each test of that legitimacy using violent means not only caused extraordinary expenditures but also disrupted the punctual servicing of the debt, as the government used whatever funds it had at hand to preserve itself. This essay will outline the evolution of the public debt within this political context, analyzing the factors which contributed to its growth and evaluating government strategies to deal with it.[2]

It should be made clear that "government" strategy refers basically to the positions, policies and acts of the executive branch of the government. Besides the President and the Vice-President, this included the three Secretaries (Interior and Justice, War and Navy, and Treasury) and the five other members of the Government Council.[3] Although Congress considered aspects of public credit, approved the terms of some fiscal transactions and certainly passed credit laws, it proved to be curiously indolent with respect to the public debt and frequently

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2 There are no studies dedicated to the finances of this period although Tomás Enrique Carrillo Batalla (1984 ss.) has written rather superficial introductory essays for some of the volumes in his monumental reference work *Historia de las Finanzas Públicas en Venezuela*. It basically contains selections from the material published in the annual reports of the Ministers of the Treasury (Hacienda) and Public Credit, laws and decrees, and other related material printed in the press or as pamphlets. The best studies of the period with an economic orientation are found in *Política y Economía en Venezuela* (Izard et al. 1976). Although concerned primarily with commercial capital, the first three sections of Banko's book shed a great deal of light on the problems of credit in the early period (Banko 1990: chaps. 1-11). Violence in all its manifestations between 1840 and 1858 has been studied, with one chapter dedicated to social-political uprisings and another to military-political rebellion (Matthews 1977: chaps. 5-6). For the military, see Gilmore (1964).

3 Foreign Affairs existed as a separate entity but was assigned to other ministries, usually Treasury but sometimes to Interior. It became a separately constituted ministry in 1851. In 1863 the Ministry of Development (Fomento) was created and that of Public Credit was created in 1864. It had existed as a section of the Treasury Ministry since 1837. Congress named four of the other members of the Council and the Supreme Court named the fifth. The Council was modified after 1861 but kept its advisory functions.

resorted to empowering the executive to make whatever arrangements it thought advisable.[4] Even when Congress legislated, it was usually the executive branch which proposed the policy and, of course, applied it.

2. The Evolution of the Debt: Creating the Administrative Structure, 1830-1846

The new nation of Venezuela was conceived within a markedly liberal economic framework and with few pretensions. While its essential administrative and fiscal framework resembled the structures created by the Congress of Cúcuta in 1821, Venezuela did not have the territory or the population which had allowed Bolívar his dreams of an international role based on the resources of a united Colombia. As Diego Urbaneja writes, Venezuela in this period aspired only to "the level of progress compatible with our condition" (Urbaneja 1988: 100).

Conscious of the importance of the agricultural sector, which produced almost all the national wealth, the government favored it indirectly by abolishing the taxes which weighed most heavily upon it. The *alcabala* was abolished on June 13, 1831, the tobacco monopoly was disbanded on March 22, 1833, *diezmos* were abolished on April 6, 1833, and the export tax was eliminated on March 31, 1841. The government's main function was to provide the minimum administrative-bureaucratic structures which a self-respecting new nation required. It was conscious of the need for economic progress and considered that this could best be achieved through the stimulation of three essential factors. The first was immigration, which would provide more workers for the agricultural sector and perhaps

4 See, for example, the resolution of April 30, 1853, and the decrees of September 20, 1856, and January 15, 1859. All Congressional laws and decrees can be found, by date, in *Recopilación de leyes de Venezuela* (1982), a facsimile reprint of the original *Recopilación de leyes y decretos*. Unless otherwise specified, laws will simply be cited by the date of the *ejecútese*, as is required by law (March 21, 1833).

attract the technical abilities which were almost totally lacking. The second was the construction and improvement of transportation routes, particularly roads, which would lower the tremendously high costs of transporting agricultural goods to market. The third was the attraction of foreign capital necessary for any significant investment and, to a certain extent, necessary simply to facilitate current commercial transactions. With these elements in mind the executive branch proposed legislation, subsequently approved by Congress, in each of the three areas.

Despite the promulgation of four different immigration laws between 1831 and 1845, government-aided immigration totalled only 11,851 persons and the government was often in arrears with the entrepreneurs who had contracted and transported the immigrants (Berglund 1982). The government's initial response to the need to improve transportation routes was to assign the responsibility to the provinces, which were never able to accumulate the necessary funds. In 1842 the provincial legislatures finally convinced the national government to set aside 160.000 pesos per year for that purpose. As a result, the first road between the capital, Caracas, and its port, La Guaira, was opened in 1845 and a wharf and breakwater were put into service in the port in 1846. These two activities alone consumed almost all the funds appropriated for such purposes in the entire nation during those years (Planchart 1979: 168-177).

Attracting foreign capital, while based in part on the successful implementation of measures to increase the population and facilitate the movement of goods, was basically predicated on removing the legal restrictions on property rights and establishing and maintaining the credit of the nation. On April 10, 1834, Congress, after several years of prodding on the part of the Treasury Minister, approved a law on freedom of contracts which established no limits on the interest to be charged and, in the case of non-payment, required auctioned goods to be sold for the highest price that was offered, whatever that price might be. On May 2, 1836, Congress established special mercantile courts in order to hasten the lethargic legal process. In 1841 a change in the law on staying private debt (May 5) required all creditors to agree to any change in the schedule of payments. If only one objected, no matter what percentage of the debt he held, the debtor's goods would be liable to public auction as per the 1834 law. The object of these laws was to offer guarantees to the creditor that his money could be recovered in a relatively brief period of time. Both the 1834 and the 1841 laws were in direct contradiction with Spanish custom, which tended to be lenient with the debtor and which had left foreign merchants hesitant to lend money they might well have difficulties in recovering.[5]

The other major incentive to attract foreign capital was the recognition and faithful servicing of both the domestic and the foreign debt. From the very beginning, Venezuela had been paying a portion of the Colombian domestic debt because it was charged against Venezuelan revenues. The British bondholders began pressing for a settlement of the foreign debt as early as 1832, in part because the domestic debt was being paid (a pattern which would be repeated in the future). However, it was made clear to them that any formal discussions would have to wait until Venezuela, Colombia and Ecuador accorded a division of the debt. Such an agreement was signed in late 1834 but was not ratified by the Colombian Congress until 1837. Under its terms, Venezuela was assigned 28 ½ percent of both the domestic and the foreign debt of the Republic of Colombia. In terms of the domestic debt, this meant 7,217,915.12 pesos plus interests. By this same date, however, Venezuela had already amortized slightly more than three million pesos. Nevertheless, the question of the domestic debt, which had simply been treated as Treasury debt until that year, became the subject of specific legislation. The May 5, 1837, law established the framework for the existing Venezuelan debt, its verification, the issuance of bonds, interest payments and amortization. It also created the

5 See Halperín Donghi (1972: chap. 2) for an excellent account of the difficulties foreign merchants, particularly the British, encountered while doing business in the new Latin American nations.

Public Debt Commission, which would gradually evolve into the Ministry of Public Credit in 1864. The laws of April 5, 1840, and April 27, 1843, extended the 1837 framework to permit the conversion and consolidation of the Colombian debt.[6]

The foreign debt represented by the Colombian loans of 1822 and 1824 was by far the largest item in the national debt in the early years of the Republic. The government's original instructions to its negotiator, Alejo Fortique, were to emphasize the meager resources of the government and thereby obtain a two-thirds reduction in the capital and the condonation of the unpaid interests. Under no circumstances was he to allow a hypothecation of any source of revenue as a guarantee of payment nor undertake obligations which the country would be unable to fulfill (Fortique 1962: 10-23). The improvement in the economic circumstances of the country while the negotiations were taking place meant that the bondholders were not willing to be so generous.

The government finally settled the conversion unilaterally by means of an executive decree dated September 16, 1840. Venezuela recognized an active debt which amounted to 11,802,473.56 pesos and an equal amount for deferred debt (the unpaid interests). After seven years at two percent, interest on the active debt would rise by a quarter percent annually to six percent and, after a grace period of twelve years, from one to five percent on the deferred debt. This meant that Venezuela would make annual payments of some 160,000 pesos a year for seven years, which coincided nicely with the surplus produced at the end of the last fiscal year. Although not pleased with the terms it felt obligated to accept, the government hoped that future budgetary surpluses would permit the amortization of a significant portion of the debt before the rates began to rise.[7]

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6 In fact, there are several other intervening laws but these are the major laws which established the initial permanent categories of debt. They were subsequently partially or completely reformed, but the categories remained.

7 The executive decree was printed in the *Exposición que dirije al Congreso de Venezuela en 1841 el Secretario de Hacienda*. Henceforth the annual report will be cited as

Thus, by 1840 the essential framework of public credit had been established and would continue as such throughout the period.[8] The government punctually serviced both the domestic and the foreign loans but its port and tariff receipts, which comprised between 80 to 90 percent of its revenue after the abolition of various taxes, dropped from 2.2 million to 1.8 million pesos in the fiscal year 1841-42 and stayed below the latter figure for the next eleven years. By 1845, the difficulties of meeting the obligations of the budget caused the government to fall back on a traditional temporary remedy, which was to discount the salaries and pensions paid by the Treasury. This was done by means of a decree of June 2, which fixed the discount at five percent. What was unusual and a sign of the disparity between expenditures and revenues, was that this was the first time that the discount had been applied in peacetime. Another indication of the incipient deficit was the non-amortization of the foreign debt after 1844-45 and the increase in the floating, i. e., Treasury debt (see Table 1).

This last type of debt had priority in payment as it comprised the budget overruns which by law were to be cancelled in the following fiscal year. As a guarantee of payment, the creditors were usually given Treasury orders to be paid in the customhouses, that is, before the revenues were sent to the public Treasury. Logically, this procedure diminished the revenues received for distribution to the various ministries. If the revenues that were generated were greater than those budgeted and those paid on account of the orders, there was no problem. If they were not and expenditures were not reduced in compensation, a shortfall resulted. This was then covered by issuing more Treasury orders against the customs revenues.

Memoria de Hacienda, Venezuela with the appropriate year. The report always refers to the previous fiscal year, thus the report for 1841 covers the fiscal year 1839-40. The minutes of the secret meeting of the Government Council on September 15, 1840, to evaluate the proposed decree were published in the *Memoria de Hacienda, Venezuela* (1847).

8 See Pimentel y Roth (1974) for a relatively complete listing of Venezuela's public credit laws up to 1872. This book is a reprint of the text (not the tables) of *Resumen cronológico de las leyes y decretos de crédito público de Venezuela*, a report he prepared as Minister of Public Credit in 1873.

Table 1: Venezuela – Public Debt and Government Revenues, 1830-1870 (Rounded, in Thousands of Pesos)[a]

Fiscal Year (7/1-6/30)	Treasury Debt[b]	Domestic Debt[c]	Foreign Debt[d]	Total Debt[e]	Port & Customs Duties[f]	Assets & Income[g]
1830-31	1,989	-	n.d.	-	738	1,438
1831-32	1,335	-	n.d.	-	1,157	1,625
1832-33	1,185	-	n.d.	-	1,161	1,750
1833-34	780	-	n.d.	-	1,107	1,866
1834-35	713	-	n.d.	-	1,004	1,441
1835-36	1,583	-	n.d.	-	1,842	1,318
1836-37	956	-	n.d.	-	1,150	1,715
1837-38	440	2,750	n.d.	2,750	920	1,590
1838-39	618	3,440	n.d.	3,440	1,225	1,997
1839-40	171	4,554	n.d.	4,554	1,976	2,796
1840-41	136	4,425	23,605	28,030	2,262	5,363
1841-42	165	2,810	23,605	26,415	1,828	6,223
1842-43	143	2,650	20,476	23,126	1,591	6,795
1843-44	199	2,231	20,926	23,157	1,633	6,045
1844-45	159	2,086	20,926	23,012	1,933	6,314
1845-46	192	1,885	20,926	22,821	1,768	5,787
1846-47	323	1,791	20,926	22,717	1,773	5,986
1847-48	729	1,847	20,926	22,773	1,174	4,526
1848-49	1,917	1,903	20,926	22,829	961	4,852
1849-50	1,830	1,900	20,926	22,826	2,290	5,654
1850-51	2,424	2,052	20,926	22,978	2,654	6,360
1851-52	4,101	n.d.	20,926	n.d.	2,986	8,781
1852-53	6,554	3,541	20,926	24,467	2,284	15,341
1853-54	1,333	4,309	20,926	25,235	2,635	7,096
1854-55	6,445	4,257	20,926	25,183	3,003	13,738
1855-56	6,582	4,671	20,926	25,597	3,212	19,403
1856-57	5,860	n.d.	n.d.	41,778	n.d.	n.d.
1857-58	n.d.	15,859	25,919	n.d.	n.d.	n.d.
1858-59	6,866	12,488	26,188	38,676	3,251	5,511
1859-60	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
1860-61	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
1861-62	n.d.	14,186	29,105	43,291	3,228	9,704
1862-63	n.d.	14,695	35,704	50,399	n.d.	n.d.
1863-64	n.d.	15,906	35,743	51,649	n.d.	n.d.
1864-65	n.d.	15,715	46,159	61,874	6,215	n.d.
1865-66	n.d.	10,995	46,562	57,557	6,336	19,854
1866-67	3,617	13,113	48,228	61,341	n.d.	n.d.
1867-68	4,206	14,680	49,894	66,408	2,794	10,640
1868-69	3,613	14,848	51,560	66,408	3,773	12,165
1869-70	n.d.	12,809	51,097	63,906	n.d.	n.d.

a The figures are given in pesos *fuertes* which had a value equal to 6.25 pounds sterling at the beginning of the period and 6.5 after about 1850, although the exchange rate varied slightly seasonally.

b From 1830 to 1837 the only debt was charged to the Treasury even though it included what would be classified as domestic debt by the 1837 law. Treasury debt was not budgeted and was paid directly by the Treasury.

c The Colombian domestic debt was not classified as such until 1837. A law of that year created the Venezuelan domestic debt and the Colombian debt was gradually converted. The domestic debt was budgeted and serviced through the Treasury Ministry.

d The Colombian foreign debt was converted into Venezuelan foreign debt in 1840. It was budgeted and serviced through the Treasury Ministry.

e The total debt does not include the Treasury debt because it was a floating debt which should be paid within the next fiscal year.

f This category has been isolated because it provided 80 to 90 percent of the cash income of the nation by 1833-34, when most national internal taxes had been abolished.

g This item corresponds to what was termed "Ingreso." Income here includes all revenues. Assets refer to what the general account of the Treasury called "Existencia." Usually it consisted of cash in hand, immature bills and the value of national properties but it also included loans and current credits in times of fiscal crisis, as can be seen increasingly after 1848-49.

Source: Data compiled by the author from the *Memoria de Hacienda, Venezuela* (1830-72) and *Memoria de Crédito Público, Venezuela* (1865-73). The titles vary and in some years there is no report.

3. Fissures in the Structure, 1847-1858

Although elections had been held regularly, the same group of men, who have been called the Conservative Oligarchy but who can be better characterized as *paecistas* (followers of José Antonio Páez), had been in power since 1830. Two types of opposition had made themselves felt: those who took up arms and those who agitated in the press, organized parties and participated in the elections. The first group, sometimes loosely called the Military Party, had rebelled in 1830-31 and again between 1835 and 1838.[9] Both these events are reflected in the sudden growth of the Treasury debt (see Table 1). The second group be-

9 Francisco Javier Yanes wrote in 1835 that the military was consuming half the annual revenues and those same men were given to trying their hand at revolution from time to time because there was no effective sanction if they lost. (That was because of the profound feeling of solidarity among those who had fought together in the wars for independence.) See his "Epístolas Catilinarias," in: *Pensamiento político venezolano* (1961-62,XII: 24-25).

came more important in the early 1840s when they published a plethora of newspapers and organized the Liberal Party. They were resolved to win their campaign through elections and became important forces on the municipal and provincial level without gaining entrée to the Congress or national government posts. The presidential elections of 1846 looked to be bitterly contested and there was a great deal of agitation in various parts of the country. Páez, hoping to avoid armed conflict, named General José Tadeo Monagas as his candidate, despite Monagas' previous participation in the uprisings of 1830-31 and 1835. He feared that Monagas, who had the largest potential private army in Venezuela, would throw his support to the Liberals. Uprisings occurred, but without Monagas' participation since he was the official candidate. Instead of being overthrown, the regime changed constitutionally, although cries of electoral fraud were heard. The uprisings related to the elections were not completely suppressed, however, until mid-1847 (Matthews 1977: chaps. 5-6).

The direct motivation for these uprisings was political. In 1830 the soldiers who took up arms did it to protest against the dissolution of the Republic of Colombia and to protect their rights and privileges. In 1831 the cause was federalism and the formation of a separate state in the eastern part of the country, in which the military *fuero* would be recognized and the Catholic religion would be the state religion. When they revolted again in 1835, in the Guerra de las Reformas, they wanted more respect as the liberators of nearly half a continent. The manner of showing that respect would be to increase notably their participation in public life. This revolt, which managed temporarily to overthrow the President, had what might be considered a secondary economic motive. The soldiers resented the limitations placed on the size of the army and the *letras de cuartel*. The *letras* paid one-third salaries to the many who, as a consequence of the reduction in forces, were not on active duty. The question of *haberes militares* had also not been completely settled. These points were not emphasized, however.

The rebels wanted to run the country more than they wanted economic privileges as such (Gil Fortoul 1967,II: chap. 7; Castillo Blomquist 1987: chap. 2; Parra-Pérez 1958-60,I).

In the 1840s, although opposition to the government certainly fed on the economic problems of the agricultural sector and various liberal economic policies, their first and last cry was "hombres nuevos, principio alternativo."[10] What united this group was their exclusion from power. Although this opposition was basically civilian in origin, it attracted caudillos who were looking for a cause and thus it contributed, unintentionally perhaps, to some armed uprisings (Matthews 1977: chap. 5).

When Monagas was elected, the center of power began to shift. He was not a follower of Páez, resented his attempts to control him through the paecista-dominated Congress and began building his own power base, mostly among liberals. In 1848, the *Cámara de Diputados* resolved to impeach Monagas for various infringements of the constitution and Monagas intervened. The exact account of who did what to whom first will probably never be fully agreed upon, but the result was that the deputies were attacked by a mob of Monagas' supporters and in the ensuing melee, several congressmen died. This motivated Páez to take up arms against the government. The confrontations lasted until mid 1849 (Castillo Blomquist 1987: chaps. 2-4).

These events have been highlighted because they were the immediate cause of the ensuing fiscal crisis which would soon become chronic. Páez' rebellion was the greatest threat the government had yet faced and the time and the cost of putting it down reflected that. Although Páez was defeated in mid 1849 and no other important uprisings took place until 1853, a fiscal examination of these years shows that military and related ex-

10 See Gil Fortoul (1967,II: chap. 9) for an excellent analysis of the origins of the Liberal Party. In an extensive footnote, pp. 235-37, he also includes a communication from Laureano Vallenilla Lanz on the social basis of the party. Fortoul and Vallenilla's interpretations of the events of these years have not been effectively challenged by more recent historians, despite the bad odor they both are in as exponents of positivism.

penditures comprised an exorbitant percentage of the total disbursements. Particularly shocking is that the Ministry of the Interior, which was responsible for the judicial system, education, health and public works, i.e., the bases for socioeconomic progress, accounted for only ten percent of the expenditures (see Table 2).

Table 2: Venezuela – Government Expenditures, 1845-46 to 1854-55 (Rounded, in Thousands of Pesos)

Fiscal Year	Interior & Justice	Treasury	Foreign Affairs	War	Navy	Others	Total
1845-46	706	1,082	17	487	58	-	2,350
1846-47	683	688	22	1,536	77	658	3,664
1847-48	452	411	9	1,035	172	378	2,457
1848-49	312	315	10	1,614	449	133	2,832
1849-50	458	467	10	1,739	248	489	3,411
1850-51	420	774	13	607	-	1,682	3,496
1851-52	441	884	35	782	123	2,509	4,774
1852-53	394	6,907	37	826	83	3,544	11,792
1853-54	468	1,076	73	1,362	-	1,739	4,718
1854-55	601	1,608	45	2,050	161	6,325	10,790
Total	4,935	14,212	271	12,038	1,371	17,457	50,284
Percent	10 %	28 %	-	24 %	3 %	35 %	100 %

Source: Data compiled by the author from the *Memoria de Hacienda, Venezuela* (1847-56).

Military expenditures made up a direct 27 percent of the disbursements, but much of the payment for current creditors found in the category of "Others" is military-related as well, as is a considerable portion of 6.9 million pesos spent by the Treasury in 1852-53. A relatively normal military expenditure can be seen in the years 1850-51 through 1852-53, but it is significant that at the same time these expenditures returned to their normal level, the disbursements made in the category of

"Others" increased enormously. This category refers to withheld salaries and pensions, emergency loans and other current creditors for financial or military contracts. As can be seen, after 1849-50 this category, which was not budgeted, consumed half or more of the expenditures, except in 1852-53, when many of these payments were made, for some unexplained reason, by way of the Treasury Ministry. As was previously mentioned, there were no armed outbreaks between mid 1849 and mid 1853 (notice the jump in military expenditures for the uprisings in 1853-54) but still a tremendous amount of money was being spent, supposedly to pay the loans and supplements made while quelling the previous rebellions. Every Treasury Minister blamed the disturbances or rebellions of 1846-47 and 1848-49 for the seemingly chronic fiscal deficits.[11]

As we shall see, however, the uprisings were only the immediate cause: the methods of financing the costs of quelling them soon choked the flow of incoming receipts and short-term financing was used to overcome that as well. A closer look at the finances of the period is called for.

The funds for the extraordinary military disbursements were obtained in various ways. With regard to the 1846-47 uprisings, the War Ministry spent its own budget and then made extraordinary expenditures of a million pesos more. The five percent discount of salaries and pensions was already in effect when the disturbances began and it was renewed on May 18, 1847. The government could also discount the promissory notes given by merchants to cover their customs duties. But the major part of the extraordinary funds came from reducing expenditures in the ministries of the Interior (390,692 pesos) and the Treasury (462,651 pesos). Since the government claimed to have cash in hand at the beginning of the fiscal year and produced a balance at the end of the 1847-48 fiscal year which showed 2,323,108

11 References can be found in the *Memoria de Hacienda, Venezuela*, presented in the years 1847-1853, with the exception of 1850. As late as 1852 the Minister placed the entire blame for the fiscal crisis on those events, saying that "the credit of the Nation had suffered a mortal wound" as a result.

pesos in their favor, it might have seemed that the extraordinary outlay would not disrupt the finances of the nation.

However, an examination of the specific items which comprised the Treasury assets as of June 30, 1847, shows that hardly any of them were liquid and many of them were simply transitorily passing through the Treasury accounts. In fact, they were revenues assigned to specific expenditures which had not as yet been effected. The biggest item, national properties, had a value of 1.2 million pesos and yet was almost without real value in the marketplace (*Memoria de Hacienda, Venezuela* 1848). In any case, to be generous, let us say that some 400,000 pesos were not covered; the Treasury debt increased by precisely that amount within the next fiscal year (1847-48). This electoral rebellion, terminated while Monagas was still under the tutelage of the *paecistas*, seems to have passed into the accounts without embellishments. The next rebellion, that of Páez against Monagas, would not.

The Páez revolt began at the end of January, 1848, and President Monagas was authorized on January 27 and March 15, 1848, to raise first a million and then two million pesos in loans, and, significantly, to use up to 50 percent of the ordinary import duties to repay them. He did this by issuing short-term Treasury bills. By the end of the next fiscal year the Treasury debt had more than doubled. Unfortunately, at the same time, revenues dropped for the second straight year to little more than half of what they had been. This meant that reductions in the disbursements of other ministries would not help to close the breach because the money simply was not there. Therefore not all the Treasury bills could be redeemed as promised, which caused them to lose value even as they were being issued. What was redeemed was paid with the customs duties, reducing even further the amounts available for budgetary disbursements.

In fact, by 1849 the Treasury was in serious difficulties because so much revenue was being extracted in the customhouses to repay the loans and incoming receipts were much lower as a result of the international crisis of 1847. On April 13, the executive was authorized to require immediate payment of the tariff duties instead permitting them to be paid with promissory notes, or *pagarés*. This then obviated the need to discount the *pagarés*. On May 2, 1849, a ten percent surcharge was placed on import duties, and exports, which had been freed of duties in 1841, were once again taxed.

The rebellion ended with the surrender of Páez in August and his subsequent expulsion from the country, but the asphyxiation of the Treasury continued. The best indication of the government's hand-to-mouth existence with regard to funds was the increase in the categories of loans and current creditors in the general account of the Treasury. In 1847-48 the two items totalled only 258,154 pesos, but by the end of the next fiscal year the total had risen to 995,066 pesos. Military expenditures for the two years were 2.6 million pesos and this, plus the million in loans, is the cost of the rebellion. However, this million added to the 700,000 pesos of Treasury debt from the previous year does not quite equal the new amount of Treasury debt, 1.9 million pesos. By the time Monagas left office, in early 1851, the total had reached 2.4 million pesos. The Treasury debt, which he had received at 729,000 pesos, had tripled.[12] Some 600,000 pesos of that increase need an explanation.

The floating debt, which should be cancelled directly out of Treasury receipts within the next fiscal year, is the truest gage of the severity of the financial difficulties of the government. It is significant that from 1837-38, when the Treasury debt first appears as a separate item from the domestic debt, to the end of the *paecista* regime in 1846-47, only two years registered a truly formidable percentage of Treasury debt with relation to real income: the two fiscal years that witnessed the uprisings of the mid 1830s. In 1837/38-1838/39 the ratio, which usually hovered around 10, reached 50 percent. The situation was saved

12 The various items which constitute this debt can be found in the "Cuenta General de la Tesorería," published in the *Memoria de Hacienda, Venezuela* of the appropriate year.

by the 30 percent increase in revenues in 1839-40. The debt ratio rose to 18 percent in the last year of the *paecista* governments because of the 1846-47 uprisings, but this time the situation would not be remedied.

The next two years not only witnessed a drastic drop in revenue but also the Páez rebellion. It was at this point that the floating debt got out of control. The government had given some thought to a domestic tax, but lacked the statistical basis on which to formulate it. Strapped for cash, it initiated a series of short-term loans including the emission of Treasury bills which, along with their interests, were paid out of already inadequate revenues. This is the explanation for the "extra" 600,000 pesos in the total Treasury debt that cannot be explained by extraordinary military expenditures. The ratio of Treasury debt with reference to real income in this government (1847/48-1850/51) rose: 62 percent; 199 percent; 80 percent; 91 percent. But the disproportion did not end with this regime. It continued, despite efforts to convert the Treasury debt into domestic debt which would not put the same onerous charge on the customs receipts. Throughout the rest of the period for which statistics exist, the ratio, after reaching a high of 287 percent in 1852-53, stayed between 100 and 200 percent.[13]

This disproportion continued because the conditions that made it possible also continued. There were uprisings in 1853-54, a revolution in 1858, a civil war between 1859 and 1863, and continual rebellions for the rest of the 1860s. Warfare, of whatever nature, also caused damages which led to claims against the government. Claims, possibly because of difficulties in payment, tended to be inflated. In the case of foreigners not only inflated, but conducive to diplomatic intervention.[14] Their

13 In 1853-54 the ratio was only 51 percent but it seems likely that this was the result of a verification of the Treasury debt which had not been concluded at the end of the fiscal year. The next year this debt returned to its previous heights and stayed there, in as far as available statistics show, until 1866.

14 Several lists of such claims in 1863, including loans of money and goods, which only contained claims of those who did not fight on the losing side in the civil war, amounted to some 12 million pesos claimed by Venezuelans and 5 million by for-

claims formed the basis of what would eventually be known as the Diplomatic Debt, a source of unending problems on the international level (Arcaya 1965).

But the actual cost of these wars and rebellions was only one part of the problem. The other part was the mechanisms used to finance the extraordinary expenditures. In fact, this was usually done by short-term loans of an individual nature. The ensuing paperwork soon overwhelmed the Treasury section and it never recovered. Their work had originally been to receive the customs receipts (and other revenues), note the deposit in their books, and then transfer them on to the appropriate account. The occasional orders against receipts were handled without any difficulty, but when these began to number in the thousands and have specific portions of specific revenues, the bookkeeping became extremely sloppy. More importantly, there were limits as to the definitive reductions which could be made in budgeted items. Eventually many of the funds for the essential items in the budgeted appropriations also had to be financed with short-term loans, and thus the Treasury debt grew even more. Significantly, although the amount of this debt was usually given in the annual report, the budget never included funds to pay it.

José Gregorio Monagas, President from 1850 to 1854, had seen the Treasury debt increase from 1.8 to 6.6 million in his first three years in office. The fact that there was no money in the Treasury when he assumed office led him to initiate regular contracts, with a variety of persons, to supply funds. This constant short-term indebtedness was fatal. It produced interest rates that varied between 9 and 18 percent per year and was payable, often with a specific hypothecation, on the customs revenues. It gave rise to the practice of financial speculation, *agiotismo*, which had not been known in Venezuela previously, as the government had mostly operated within its normal revenues. As a consequence of this practice, the operational ability

eigners. The highest claim, 1.5 million pesos, was entered by José Tadeo Monagas (Carrillo Batalla 1984 ss.,XVI: 113-133).

of the Treasury, which could not cope with the paperwork, was greatly debilitated, leading to negligence, corruption and fraud.

Some of the funds received using this mechanism were in cash, but some were devalued debt instruments which were handed in at face value in order to get a treasury order, which had a better chance of being redeemed. The Treasury accounts of this period reveal that the government survived completely at the mercy of its creditors. According to the accounts, they loaned as much as eight million pesos in just one year (which included devalued paper), a figure which is remarkable given the total circulation of money at that time. Being short-term transactions, the figure undoubtedly reflected the turnover of the funds loaned (*Memoria de Hacienda, Venezuela* 1852; 1853; 1854).

In any case, despite surcharges on tariff duties, there was not enough money in the customhouses to redeem all the Treasury orders. Therefore, some holders would sell them at a discount for cash. The usual buyers were the import merchants, who having paid 20 to 30 percent for the order, would then hand it in at nearly full face value in partial payment of the duties on their merchandise (Berglund 1985: 381). The merchant profited by paying less than full value for the duties he owed, but the government suffered because the transaction was once again made in part with paper when it needed the full value in cash. The confusion caused by the multiplication of these *vales* led to the promulgation of the law of April 18, 1853, which fused all the Treasury debt that had accumulated between July 1, 1846, and June 30, 1852, ceding one-fourth of all ordinary import duties to its redemption.

The fusion of debts was exactly what was needed to keep the accounts straight, but it was José Gregorio's only effort in that direction. In his farewell message to Congress in 1854, Monagas made the point that in no country in the world are extraordinary expenditures, such as those for war, covered by ordinary revenues. Rather, those expenses are covered by different sources, leaving the normal income of the country to cover budgeted expenses. For that reason, he had actively sought foreign funding to relieve the burden of the debts charged to the customhouses so as to leave these receipts for normal expenditures. His efforts to reduce the actual foreign debt service and to obtain another loan had not been successful (*Mensajes presidenciales, Venezuela* 1970,I: 199).

When José Tadeo Monagas became President again in 1855, he found the Treasury completely disorganized and unable to cope any longer. In his first message to Congress, he stated: "Our Treasury, our accounting, our credit are in chaos" (*Mensajes presidenciales, Venezuela* 1970,I: 211). One of his initial acts was to create a firm fiscal basis for public credit, which he achieved by means of the May 22, 1855 law, regulated on November 30. This law destined up to 40 percent of the ordinary customs revenues to the servicing and amortization of the Treasury, domestic, and foreign debt, as well as the payment of diplomatic claims. He was aware that the public administration would have financial difficulties with so much revenue effectively lost, but he assumed that it would be easier and cheaper to borrow money if the nation's credit was on a sound fiscal basis. To free up the Treasury, the new law called for the consolidation of all Treasury debt verified between July 1, 1846, and June 30, 1855, which would be converted into Treasury debt without interest. Only the Stay Law debt payable through the Treasury with five percent interest and the existing five percent Treasury debt were excepted. The diplomatic claims would receive 250,000 pesos a year, the 1851-1854 contracts would receive 120,000 pesos and the special contracts for public works would receive 60,000 pesos per year. The Treasury debt without interest (which totalled some three million pesos) would be amortized at the rate of 5,000 pesos per month. The lack of interest on what were supposedly short-term cash loans and the relatively long wait (possibly fifty years) for payment were strong indications of its often spurious nature. Finally, the domestic debt would be serviced and amortized regularly, and the unpaid interests would be cancelled. All the terms of this new law were met religiously while Monagas was in power (Pimentel y Roth 1974: 54-57).

According to the report of the Treasury Minister in 1856, the government was quite aware that customs receipts varied seasonally. In order to assure an even flow so as to fulfill its credit obligations punctually and permit rational planning of disbursements, it signed a contract with the Compañía de Accionistas. The company, formed for the purpose, was composed of individual speculators and several commercial firms. The terms of the two-year contract were to establish a current account for the government at a rate of 3/4 percent a month (the legal rate since 1849 when the law on freedom of contracts was repealed) and a five percent commission for the collection and transferral of funds from various customhouses. The company had the responsibility of paying the diplomatic claims and the interest on the domestic debt as well as the normal administrative expenditures of the government. It was given all of the customs duties at La Guaira and 35 percent of those in four other ports. In essence, this was the old contract system centralized in just one institution. The Treasury Minister noted that it was true that this arrangement had its costs, but that the old system did not work and if this did, it was well worth the added expense. The company failed in 1857 because the government made expenditures which were not subsequently recoverable by the revenues available.

On September 20, 1856, Congress authorized the executive branch to reform the public credit law and restructure the Treasury Ministry. In decrees dated between October 15 and 24, the executive enacted a radical reform of the Treasury Ministry and on December 16, it decreed the first thorough reform of the credit law.

Having saved both the Treasury and the Ministry, on paper at least, Monagas proceeded to try to save the presidency for himself. The 1857 Congress approved a new constitution (though it was unconstitutional to do so in that manner) which, among other changes, amplified executive powers, sanctioned consecutive presidential terms and extended those terms from four to six years. It then elected Monagas to a further six-year term. This was the step that united his opposition and he was overthrown on March 15, 1858.

4. Fiscal Collapse, 1858-1870

One of the first acts (March 27, 1858) of the provisional chief executive was to create a commission to verify the accounts in all the offices of the Treasury from 1851 to 1858.[15] Although the commission began work, it was replaced within a year by another commission which would restrict itself to verifying public debt documents.[16] The Verification Commission produced its first report in January 1860, giving the results noted in Table 1 for the years 1856/58-1858/59.[17] As can be seen, the Treasury

15 His justification was the prevalent administrative disorder and the fact that the public debt had grown so much that it constituted a threat to the future of the country. In case there was any doubt about criminal liability in this situation, art. 6 prohibited those who had been high officials of the executive branch and all Treasury officials from alienating property, personal or real, until the commission finished its investigation.

16 Once again there would be no sanctions for wrongdoing. In a communication by Francisco de P. Pardo to the Verification Commission on November 18, 1859, the reasons are made clear. He states that although the fraud in the accounts is palpable, the accounts were legally closed by the rightful authorities of the nation at the time. To dispute them would be to undermine public faith, the sanctity of contracts, the meaning of forms, and imply that nothing ever has an end. If each new government began to dispute the accounts of the previous one, nothing would ever get done. More to the point perhaps, the author suggested that so many interests were involved, it would be impolitic to do anything about it (Carrillo Batalla 1984 ss.,XII: 186-195). Another reason for stopping the work, according to the Minister, was that it would take more time to revise the accounts than it had taken to perform the transactions originally (*Memoria de Hacienda, Venezuela* 1860).

17 The original 1858 report was not printed before the government was overthrown. The new government's 1858 report starts by indicating that the notorious disorder, confusion and criminal trafficking with the public funds have made it impossible to prepare a complete and reliable report. There was no report in 1859. The 1861 report is incomplete because there had not been time to attend to the Ministry's reorganization due to the war; the statistical information is lacking with which to make the report. In 1862 there was no Congress so there was no report; in 1863 the new government had just come into power and the report was incomplete; there was no report in 1864, 1868 or 1870. From 1861 to 1867 it was evidently impossible to determine the amount of Treasury debt.

debt rose a million pesos because the government had been fighting a civil war for the last year, with no end in sight. Even before the statistics were available, however, the government knew that it had no money, despite having had recourse to all the usual remedies for fiscal deficits: discounting salaries and pensions, adding surcharges to the customs duties, and discounting *pagarés*. It even imposed a fixed extraordinary contribution, based on income, on all activities except agriculture.

Hoping to avoid the problems that penny-ante thinking would precipitate, the government, which had no domestic credit to speak of, decided to launch a one million peso emission of paper in October 1859. It was to pay one and a half percent a month in interests and be redeemed in 20 months, guaranteed by a 50 percent mortgage on the *aduana* receipts at La Guaira and Puerto Cabello. So far it was not a believable proposition because there were still bills floating around which belonged to the emissions of 1848 and 1849. What sold this issue was that the government managed to get the leading mercantile houses to subscribe it and redeem it. At that point in time the houses had much better credit, both financial and moral, than the government did. And since they were all importers or exporters, it was easy for them to supervise the redemption of their bills (Carrillo Batalla 1984 ss.,XIII: 188-193).

But it was not an operation which could be repeated on the same scale, as a second issue of August 20, 1860, demonstrated. The mercantile houses did not have the liquidity necessary to tie up such an amount for such a relatively long time. Having already divined this, the government decided to take up the course suggested years before by José Gregorio Monagas: a foreign loan.

The original foreign debt, inherited from the independence period, had been renegotiated in 1840. Nevertheless, amortization was suspended in 1844, thus putting an end to the hope of significantly reducing the debt before the interest rates began climbing in 1848. Contemplating the schedule of payments, printed in the *Memoria de Hacienda* of 1847, it became obvious that the debt, in the context of the fiscal difficulties of the country, would have to be renegotiated. The 1847 failure of the London house of Reid, Irving and Company, fiscal agents of Venezuela, with part of the October remittances in hand, simply precipitated the inevitable. The government was unable to replace the funds or make the next payment because of the Páez rebellion.

On May 22, 1848, at the behest of the executive, Congress authorized it to renegotiate the loan at a fixed rate of four percent. The government, absorbed in the rebellion, made no contact with the bondholders until October 1849. On October 1 an executive decree had been published ordering that one quarter of the ordinary import duties be used to satisfy the obligations of the domestic and the foreign debt (*Memoria de Hacienda, Venezuela* 1850). With this guarantee of payment, the government wanted to resume payments with some kind of adjustment. The negotiations continued sporadically for the next ten years.

A preliminary agreement was reached in September, 1851, but was never ratified by Congress because it contained no reduction of the amount of the debt or the interest rate (*Memoria de Hacienda, Venezuela* 1852). In 1852 the government named Frederick Huth and Company as its fiscal agent, but no remittances were made. In 1853 the British bondholders sent a Mr. Weiss to Caracas, but he arrived in the middle of yet another uprising. In a communication to him from the Treasury Minister, dated June 18, 1853, the Minister noted that for the third time since 1848 the government had enjoined the struggle with the "enemies of public tranquility" and for that reason it was not possible to consider any propositions on the foreign debt. Mr. Weiss replied that the government would undoubtedly have the sympathy of the bondholders on that account, but that they would not and did not understand why even the periods of peace which Venezuela had enjoyed produced no benefits to the bondholders. John D. Powles, vice-chairman of the Committee of Bondholders, went even further in a subsequent letter to the Earl of Clarendon, dated July 14, 1853, in which he characterized the nonpayment of the foreign debt as a product of evasions and violations. He also noted that at the same time the interest on the domestic debt, secured on the same revenues, was punctually paid. "No Government could have given its Foreign Creditors more solemn and repeated guarantees...or more entirely disregarded and violated them, than has the Government of Venezuela." The country's reputation as a bad faith debtor became official.[18]

The negotiations continued and another preliminary agreement was signed in 1857 which included capitalizing the unpaid interests with interests at three percent for five years and then at four percent; the active debt to have interests at three percent and then four, and the deferred debt to have interests at one percent, then one and a quarter after five years, rising to two percent in ten years. The agreement was never ratified by Congress, which essentially said that by the May 10, 1854 decree it had left the terms in the hands of the executive branch. The executive then proposed interest rates of 2-2 ½ and 3 percent on the capitalized interests and active bonds and 1-1 ¼ and 2 percent for the deferred stock. The bondholders viewed this as a breach of the original agreement with the Venezuelan commissioners and turned it down. Aside from any genuine sense that the interest rates proposed by the bondholders were too high for Venezuela to pay, the executive had been counting on a five million peso loan to clear up the Treasury debt and without it, would not have had the customs duties sufficiently clear to guarantee payment. The new loan was never officially discussed.[19]

When José Tadeo Monagas fell, the bondholders again sent an agent to open negotiations, but the new government was concerned with rewriting the constitution. In 1859, however, it opened negotiations in London and within a few months, with

18 *Report on Foreign Debt of Venezuela* (1854: 18-19, 21-22).

19 See *Foreign Debt of Venezuela* (1857).

the assistance of Baring Brothers and Company, renegotiated the debt, capitalizing the unpaid interests but lowering the interest rates in line with what the government had asked in 1858, that is, a permanent rate after 1860 of three percent on the first two categories and 1 ½ for the deferred. The government made the 1859 and 1860 payments and then defaulted again. The civil war was in its third year and the government needed the funds.

In 1861, after having worked out an arrangement with the recently founded Banco de Venezuela to handle its cash flows, and guaranteeing its transactions with 38 percent of the customs duties at La Guaira (an arrangement somewhat similar to that established in 1855 with the Compañía de Accionistas), the government decided to attempt another foreign loan. The bank was having difficulties in obtaining revenues in cash because of the many obligations on the duties and it could not loan the necessary funds for war expenditures. The government had continued with a series of smaller loans, but the results were less and less productive and the customs duties increasingly bespoken. Thus, the new loan, although needed urgently to fight the war, was promoted on the basis of freeing up the customs duties in order to promote fiscal soundness. It was also eventually tied to the payment of the old Colombian loans and guaranteed by 55 percent of the import duties at La Guaira and Puerto Cabello. The loan was issued by Baring Brothers and Company in 1862 for one million pounds sterling, at a price of £ 63 for every £ 100 worth of bonds. Its interest rate was six percent and the interests unpaid since 1860 were capitalized at par, also with an interest rate of six percent.[20]

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20 A Venezuelan account of this loan can be found in the publication of much of the correspondence between the General Secretary and Venezuela's commissioner,printed in response to criticisms of fraud and corruption after the government fell. It was originally published in the newspaper *El Independiente* (Caracas, 1863), nos. 964-976 and reprinted in Carrillo Batalla (1984 ss., XIV: 23-114). More information is available in documents published after the loan payments were suspended in late 1864. See *Venezuela Loan* (1865a; 1865b) and *Debt of Venezuela* (1865).

Soon afterward the government realized that these funds were not sufficient for their needs. The Secretary General began planning a new loan, which was being discussed when the government fell in April 1863. The new government, with its own debts pending and no money, decided to continue negotiations, but with another institution, the General Credit and Finance Company. It arranged a loan in 1864 for £ 1.5 million at 60 with six percent interest, with payment guaranteed by a hypothecation of the export duties in the four leading ports. Unfortunately, either Venezuela had exhausted its credit with the last loan or the market was not buoyant. Only about £ 400,000 of bonds were actually bought by the public. The Venezuelan commissioner of the loan, Antonio Guzmán Blanco, had been the Minister of Foreign Affairs and of the Treasury before leaving for London and would be elected Vice-President upon his return. His decision to go forward with the loan, despite the poor showing, was based on political criteria and personal gain. (Guzmán Blanco was entitled to a commission on the nominal value of the loan.) He used the unsold bonds to guarantee separate transactions (at the ruinous rates of 35-40 percent, to which the real value of the bonds dropped almost immediately). Although this loan had been promoted as a fiscal loan, as in the case of the 1862 loan, its raison d'être was political – the survival of the government. The supporters of the government must be recompensed, evidently at any cost.[21]

The funds from the 1864 loan were paid out in October and the payments on the 1862 loan (including the original Colombian loans) were suspended in December. The pretext given by the government was that the customs duties had not been cleared by the funds from the loan and therefore the 55 percent hypothecation on them, if not the loan itself, was invalid. But it was willing to pay 15 percent of the import duties in all of the

21 The agent sent to Venezuela to ensure that the export duties were free of encumbrances wrote a book on his travels and the loan. See Eastwick (1959: chap. 14, app. A). Many of the letters from the General Credit and Finance Company to Guzmán Blanco can be found under its name in the Archivo de Guzmán Blanco, in the Fundación Boulton, Caracas.

ports. This sparked off the controversy detailed in the works cited in footnote twenty. In April of 1867, payments were suspended on the 1864 loan. Although the excuse given was that it was not correct to pay one loan and not the other, the truth was that the government needed the funds. Another rebellion had begun.

In 1868, the government, having changed hands again at the cost of new indebtedness, maintained a hand-to-mouth existence, contracting loans with whomever would offer. Nevertheless, on May 18, 1869, it abolished the export duties altogether as a form of relief to the agricultural sector, hard hit after so many years of warfare. The extraordinary import duties were also reduced as a relief to commerce and to lower prices. At the same time it was impossible for the national government to create domestic taxes because the economy was in shambles and the federalism rampant in the country gave states the right to create their own taxes, which they did. The taxpayers were overburdened.

Marcos Santana, a respected merchant and Treasury Minister at the time of the 1869 report, noted that years of warfare and years of administrative disorder had practically destroyed the Ministry and the national Treasury. Congress constantly approved budgets above revenues. The Treasury debt alone was nearly equal to total income. Interests on the foreign debt for the next fiscal year, if they were being paid, and they were not, would amount to 1.7 million pesos and the domestic debt interests to 607,000 pesos. That is, interest on debt obligations, if paid, would consume 52 percent of the projected revenues.

It is important to note here that although revenues had increased by about 75 percent since 1840, the (projected) debt service had increased by nearly 600 percent. The ten Ministers who passed through the Treasury Ministry in 1869 seemed to stay only long enough to throw up their hands. It might not be far from the truth to say that this government fell in April 1870 not because Antonio Guzmán Blanco defeated it in battle, but from fiscal exhaustion.

5. Conclusions

As the organization of this paper indicates, there seem to be three discernible stages in the evolution of Venezuelan debt. In the first stage, from 1830 to 1846, the government was basically concerned to create the necessary administrative structures and to establish and maintain public credit. This goal was achieved, but the *paecista* governments were so fiscally conservative that they never really contemplated using their newly acquired credit to create a domestic debt mechanism that would facilitate funds in the case of an emergency or that could be used to finance improvements in the infrastructure. If the government had used its newly established credit to float bond issues to build roads, for example, it is quite likely that the agricultural sector would have been much more profitable. Expanded communications would have developed a sense of progress and nationhood and perhaps the dynamism that this would have imparted would have turned political dissenters into supporters. But perhaps not.

What had been an occasional problem before 1845 became increasingly more significant afterward – social unrest and armed rebellions. In the absence of an established alternative, the costs of suppressing these uprisings were charged to current revenues. As the second stage showed, the years from 1847 to 1858 were characterized by a loss of control over the floating debt. The government began to depend on *agiotistas* to supply it with funds which created a debt cycle of such dimensions that the only way of breaking it would have required external funding. Although not unaware of this possible solution, José Tadeo Monagas preferred to try home remedies first. He completely reformed the administrative structure of the Treasury Ministry and the Treasury itself and then rewrote the public credit law in the hope that it would restore confidence in the government's ability to manage the debt. Perhaps with sufficient time these reforms would have had the desired effect, but

Monagas overreached himself politically and was overthrown fifteen months later.

At the beginning of the third stage, 1858-1870, the combined domestic and Treasury debt were almost the same amount as the foreign debt. Desperately short of cash and with government credit severely questioned, the only large loan which could be arranged locally depended on the good will of the mercantile houses. The terms of the loan clearly indicated the limited nature of local credit: interests at 1.5 percent a month, redemption in 20 months, and a fifty percent hypothecation of import duties. With a civil war in progress, almost half of its revenues pledged and domestic loans available only on prohibitive terms, the government decided to re-establish its international credit and seek a foreign loan. The existing loan was renegotiated and a new loan was eventually forthcoming, but it fell short of the needs of the government. It did not adequately reduce the floating debt and did not provide sufficient funds to win the war. The new government also negotiated a foreign loan which proved to be insufficient for its purposes. Payments were soon suspended on all the foreign debt. During a period of forty years, Venezuela had serviced the foreign debt for only sixteen years.

By 1864 the gamut of lending possibilities had been exhausted. By 1867 Venezuela's credit, both domestic and international, was in ruins. The situation had come full cycle since 1830. With nothing to show for its burden, the national debt had more than doubled. The politics of exclusion had led to armed rebellion, and inappropriate funding mechanisms had converted the ensuing extraordinary expenditures into a permanent and direct burden on the national Treasury. The floating debt thus created fed on itself, and eventually destroyed the fiscal soundness of the country. Fiscal control had been lost and the political will to regain it was absent. The challenge facing Antonio Guzmán Blanco when he took power in 1870 was to correct that situation. It was the same challenge that the first government of the new nation had faced in 1830, but the odds against his success were much greater.